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THE PICTURE: Over the last few years I have advocated three main categories of investments. The first is common stocks, and I particularly recommended the strongest Dow stocks. I did this because I believed that this was first and foremost a bull market of high-grade stocks, and that the place to be was therefore in the best acting of the Dow-type issues. This approach, so far, has worked out better than I had envisioned in my wildest dreams (as an examination of the charts of any of the better-acting Dow stocks will illustrate).

My second recommendation was municipal bonds, and although this is a conservative (and boring) area compared with common stocks, it is an area which has brought us excellent total returns (i.e., appreciation plus income). Last week the muni futures contracts (and this is the most convenient way to follow the muni bonds) hit new bull market highs.

The third area that I have liked (since mid-1985) is gold, and I have advocated that gold items (particularly the coins) be accumulated. Gold (the metal) is up 45% from its 1985 low, and I continue to like the gold action.

Thus I am now in one of those rare periods where I get only happy and encouraging letters and calls from subscribers. I have learned to be suspicious of euphoria in this business, so I find myself wondering how long this magical era can last.

But let's go back to the stock market. I have written in the last few Letters that we are currently in the position of having to deal with a stock market PARADOX. By any measurement that I know of, today's stock market is overpriced and overvalued. On the basis of yields, the leading averages are providing little in the way of return. The Dow offers a yield of 3%, the S&P 500 shows a yield of 2.98%, and the S&P 400 Industrials provides an even skinnier yield of 2.60%.

On a price to earnings basis, the story is the same. Investors (if that is what we can call them today) are paying roughly 19 times earnings for the Dow, a very fat price in the light of history.

On a book value basis, the picture is the same. The Dow is selling at 2.3 times its book value, the richest valuation for the Dow since these statistics were first computed in the early 1930s.

So from a valuation standpoint, stocks are well up into the wild blue yonder. And I have repeated Charles H. Dow's observation that "to know values is to know the meaning of the market." If Dow was living today, he would probably be taking a few profits and maybe more than a few.

In order to provide an historical overview of the value situation, I have included (page 2) a rather remarkable chart which has just been published by Growth Stock Guide (Box 6600, Rapid City, SD 57709). This chart offers one of the best value perspectives that I have ever seen. Furthermore, it is a simple chart to read. At the bottom of the chart we see the cost of $1 in dividends, and note that this chart goes back to the year 1900.

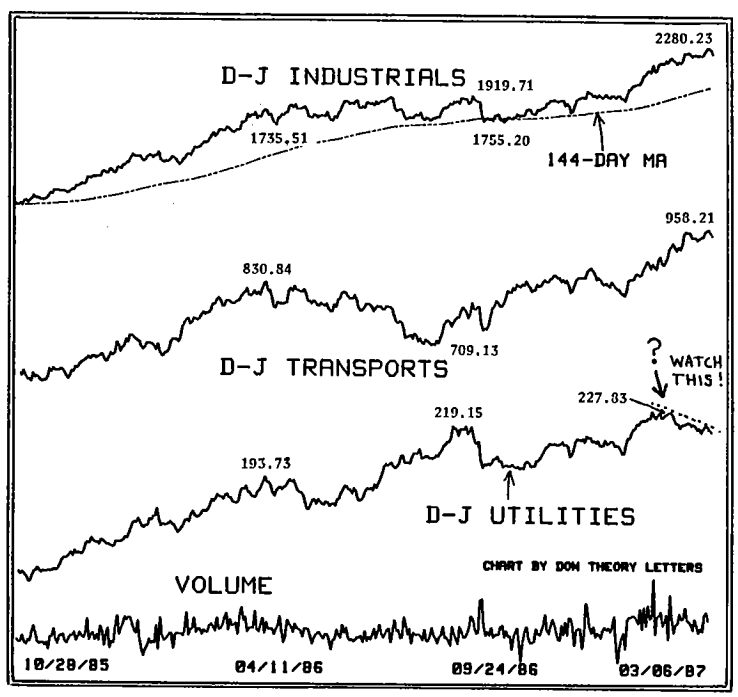
As an additional point of interest, the chart makes careful reference to the four-year cycles (the four-year cycle is the best known and most reliable of all the stock market cycles). The vertical dotted lines on the chart seek to identify the four-year cycle BOTTOMS.

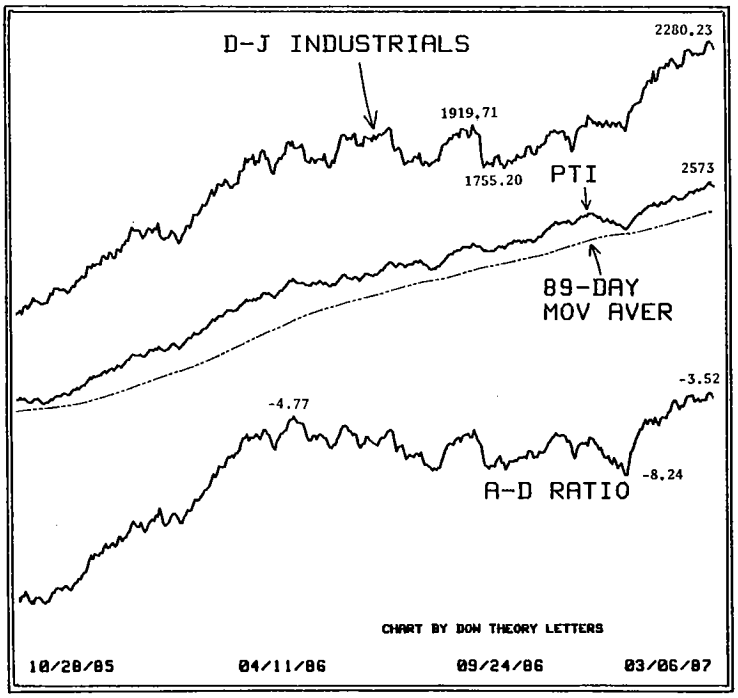
One of the questions that analysts have been asking themselves is whether a four-year bottom appeared during the last year. It is interesting to note that if 1986 saw a four-year cycle bottom (which is, at best, doubtful), that bottom came with the Dow priced at 28.5 times dividends (a high valuation never seen before at a four-year cycle bottom).

So the chart raises a number of important considerations at this point: (1) If the reliable four-year cycle low did appear during 1986-87, why doesn't it show in the price action on the chart? (2) Will this be the first time in this century that the four-year cycle will not appear? (3) Maybe the four-year cycle still lies ahead, in which case we could see sudden, unexpected trouble. (4) And finally, based on the price/dividend multiple as seen on the chart, the current market is just plain expensive. Furthermore, on a valuation basis we have now moved into the area where many severe corrections and a number of bull market tops have appeared.

So much for the market on the basis of valuation. The paradox now appears. And the paradox is that today's market ACTION is still powerful. The fact is that this market goes down (i.e., tries to correct) with great difficulty, but this market GOES UP WITH EASE. Furthermore, volume tends to dry up on the downside, but volume tends to expand on the upside.

Apologists for the bull market claim that despite the high valuation, "this market is different" (and of course, we old-timers cringe at that expression because we have seen so many "different" markets fall apart in the past). But this market really is different, it is claimed. It's different because for the first time in history we are seeing a truly GLOBAL economy and a global bull market. And





while the Japanese stock indices, for instance, are priced at a fat 40-50 times earnings, our blue-chip Dow Average is priced at less than half of that.

So the Japanese, who have already poured billions of dollars into US T-bonds and real estate, have now discovered a new investment "bargain basement" -- the US stock market. And there is no question about it -- the statistics do show tremendous foreign buying of US stock -- German, Dutch, Swiss, and British buying as well as Japanese. Will all that foreign buying suspend Dow's law of values? Time will tell.

Now let's turn to the ALL-IMPORTANT ACTION of the market, here are some of the phenomena that I see.

(1) The Averages continue to push to new highs. On March 4 the Dow, after a few weeks of hesitation, roared to a new high. On March 5 the D-J Transports confirmed, as they rallied to a new bull market high of their own. There is no better action than a market that corrects reluctantly, then pushes higher with the leading averages advancing to new highs on expanding volume.

(2) The (up to now) lagging NYSE Financial Index has now moved into gear with the rest of the market. Despite banking and credit worries, the NYSE Financial Index is now at new bull market highs.

(3) My Primary Trend Index (PTI) has been advancing to new highs day after day. Glance at the page 2 chart, and you will see that even during the mild sell-off of late-February to early-March the PTI continued to set records. Despite any hesitancy in the market, the PTI wants to go higher.

(4) The advance-decline ratio for the NYSE, after almost a year of lag, has now moved into gear with the Dow Averages. The A-D ratio is now pushing to new bull market highs -- meaning that the bulk of the market is now confirming the action of the higher grade stocks. Any way you cut it, that's good action.

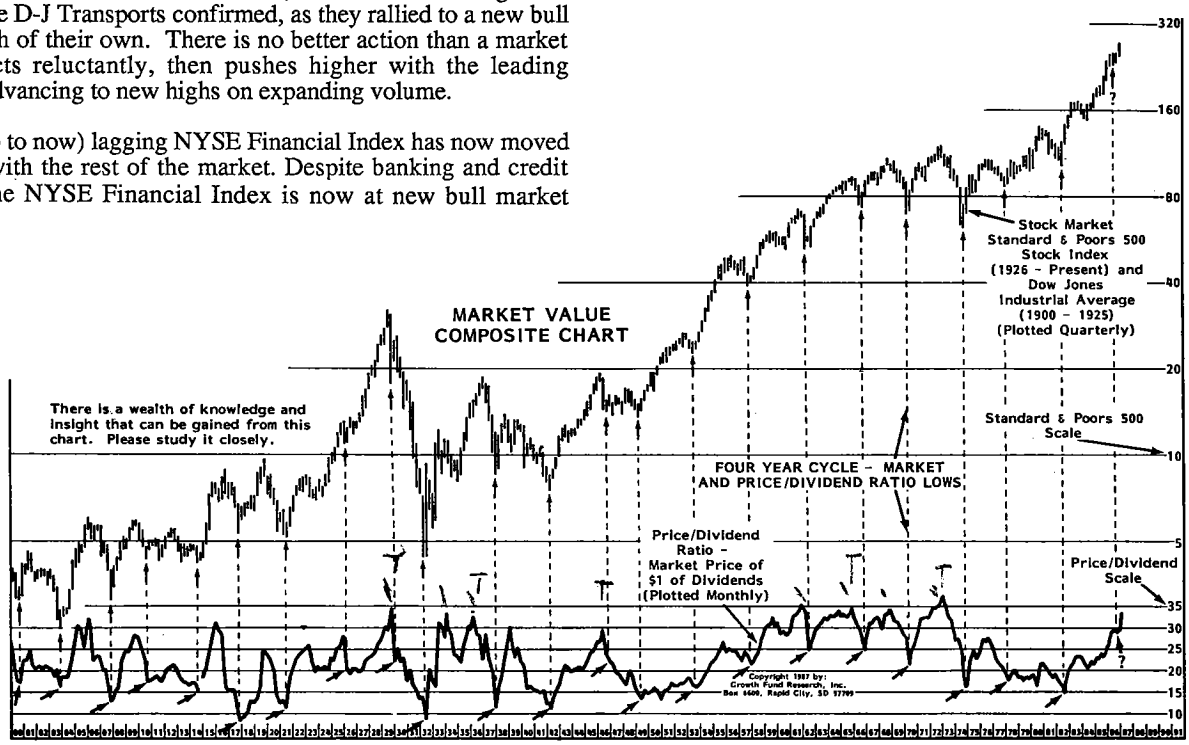
(5) The other studies that I watch but don't usually write about, such as the McClellan Oscillator and Lowry's Buying and Selling pressure studies, are now bullish (both of these are based on market breadth or breadth/volume studies).

So if there is any real conclusion to be drawn from this market, it is this: From an historical viewpoint, today's market is overvalued, and since the market is overvalued it bears close watching. Also from the standpoint of duration and extent of the rise, this market is very overextended. So here again, this market deserves to be watched closely. Let me put it another way: WE AREN'T BUYING VALUES TODAY, WE'RE BUYING UPSIDE MOMENTUM.

But from the standpoint of those of us who are holding stocks, this is still one powerful bull market. In other words, the action of the market continues to be just plain good. Complain about the market, rant about the wild speculation, ridicule the values, but face it -- this market is not yet providing technical hints that it wants to go down. And to repeat one of Wall Street's most basic adages, "If the market won't go down, it is going higher." Which is exactly what this market has been doing.

Question: Russell, what do you make of the recent action of the D-J Utility Average?

Answer: The Utility Average now bears close watching -- and I'll give you a little history. The Utility Average recorded a bull market high of 227.83 on January 22 (see page 1 chart). The Average sank to the 222 level, rallied weakly, then broke well below the 222 level to trace out a definite downward zig-zag. The Utility Average formed this bearish pattern in the face of a big break in the price of oil. It should be noted that in the past, lower oil prices served to rally the Utilities (since the utility companies are big consumers of oil).


MARKET VALUE
COMPOSITE CHART
There is a wealth of knowledge and insight that can be gained from this chart. Please study it closely.
Stock Market Standard & Poors 500 Stock Index (1926 - Present) and Dow Jones Industrial Average (1900 - 1925) (Plotted Quarterly)
Standard & Poors 500 Scale
FOUR YEAR CYCLE - MARKET AND PRICE/DIVIDEND RATIO LOWS
Price/Dividend Ratio - Market Price of $1 of Dividends (Plotted Monthly)
Price/Dividend Scale
320
160
80
40
20
10
5
35
30
25
20
15
10
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The Utility Average only came into being in 1929 (well after the formulation of Dow Theory). The Utilities have therefore never been incorporated into classic Dow Theory. Nevertheless, the later Dow Theorists have always watched the Utilities carefully. E. George Schaefer (the great Dow Theorist who died in 1974) often referred to the Utilities as a "bellwether Average."

The utilities are an extremely important industry: they are sensitive to government regulation, to energy consumption, energy prices, the level of manufacturing and last, but not least, they are extremely sensitive to coming trends in interest rates.

Based on past history, I feel the trend of the D-J Utility Average must be watched carefully from here on. A continued slide in Utilities would have bearish implications for the entire market. While it is not always so, there have been instances where the first hint of major market trouble came from the Utility Average.

For instance, (and few people are aware of this), the Utility Average topped out on April 20, 1965, eight months before the fateful January 1966 bull market peak. Again, the Utility Average provided an early warning by recording its high on January 19, 1971. Although the other Averages topped out two years later, in January 1973, the A-D ratio never bettered the highs seen when the Utiliites peaked in January 1971 (furthermore, the market became erratic and extremely difficult following the Utility top-out of '71). As we all know, the market crash came during 1973 and '74.

So the obvious conclusion is -- don't ignore the action of the Utility Average. It has often, in the past, been a bellwether of things to come.

MUNIS: I've been recommending municipal bonds for a number of years, and (as gathered from letters received here) many subscribers have bought them. Of course, the most advantageous munis are the ones issued by your own state, particularly the general obligation bonds issued by your own state. Why? Because when you buy your own state's GOs, you are buying very high-grade paper (backed by the full taxing power of the state) and you are buying bonds that will provide you with interest that is tax-free -- both federal and state.

When I first recommended the bonds, a good many of them were yielding up to 9%. Today, the state GOs tend to yield around 6.5 to 6.8%. Obviously, the strong bond market has driven the rates down. Furthermore, in the case of munis, I feel there is another consideration. It's only my opinion, but I believe that in the next few years (certainly, if the Democrats win the next election) people in the higher end of the earnings scale are going to be subject to higher taxes. Already, a few leading Democrats are making noises in that direction, and I feel it's just a matter of time.

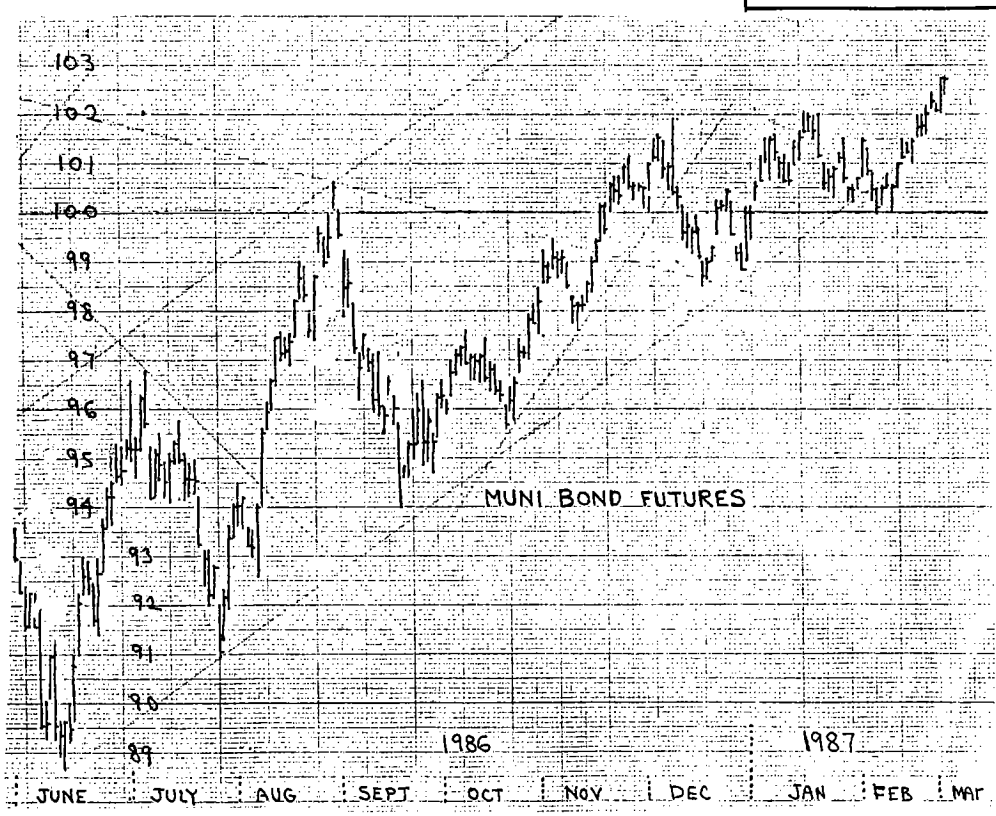
Of course, the prospect of higher taxes makes tax-free muni income more valuable than ever, and I guess the bond market senses this. The accompanying chart shows the muni contract (March futures) breaking out last week to new highs. That means that everybody that bought munis (of any kind) over the last few years is now showing good profits.

What do we do with our munis with the built-in fat profits? I'm going to keep mine, and that's the advice I give to my subscribers. When those tax-free checks come in, it feels like REAL money. Yeah, it's the nearest thing (financially) to living back in the 1920s or '30s when taxes weren't the headache they are today.

INVESTMENT POSITION: As I said in the last Letter, this market is seriously overvalued, and that's why I amputated one of our prize bull's horns (as a warning and a reminder). The bull is STILL a bull, but a one-horned bull just doesn't have the firepower of a bull with both horns.

Because this is still a bull market, I've advised subscribers to hold the bulk of their common stocks. But because in the long run "values make the market," and because values today are super-thin, I have also advised some profit-taking. I would continue taking profits as the market keeps rising.

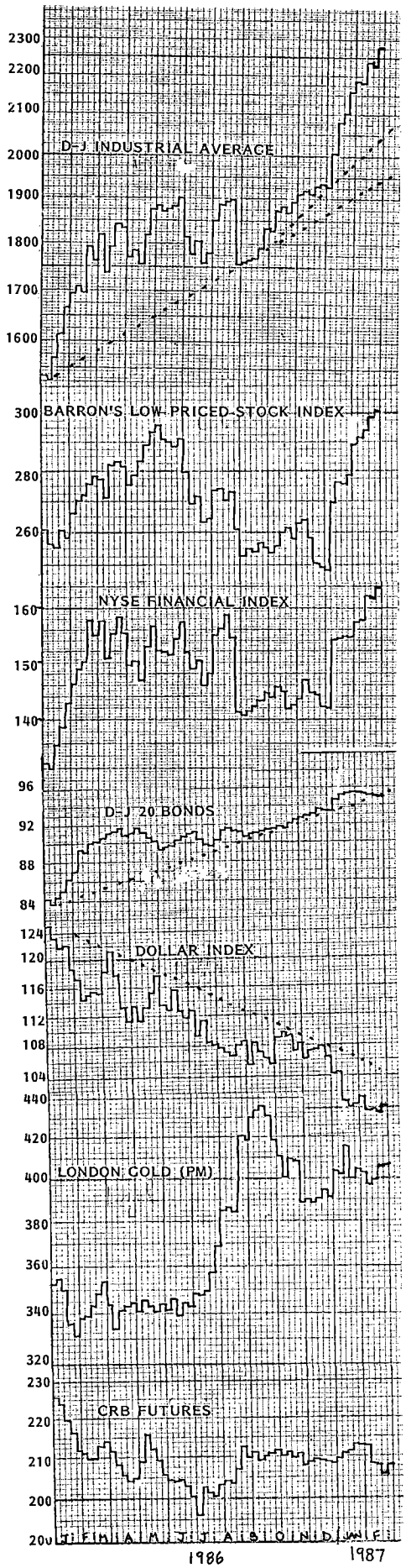
Actually, it's a very interesting situation we're dealing with today. Those who have been with me for a few years or more have to have fat profits in stocks, bonds or both. Consequently, there are two ways you can handle your investments at this stage of the bull market: (1) You can take some profits on the basis of this market being extended and overvalued. (2) You can sit tight and wait for some definitive technical signals such as a Dow Theory bear signal or a bear signal from my PTI (neither of which has occurred). I personally have chosen the first avenue. As they say on Wall Street, "Nobody ever went broke taking a profit."



WHERE ARE WE? I love to work with semi-logarithmic (ratio) charts. These charts deal in percentages, and it is only with these charts that you can CORRECTLY COMPARE the price action of various items. On a ratio chart, a rise from 2 to 4 appears as exactly the same (in vertical distance) as a rise from 50 to 100 or a rise from 600 to 1200 -- since all of these rises are exactly 100%.

Trendlines drawn on a ratio chart are particularly meaningful. A rising trendline drawn on a ratio chart represents a FIXED RATE of growth, just as a declining trendline represents a fixed rate of contraction. Thus, when a trendline on a ratio chart is reversed, such a reversal is important since it tells us that the rate of growth or contraction has reversed.

With the above in mind, let's examine some of the important items, items that I track and often refer to in these reports (weekly closings are shown). The first is the D-J Industrial Average. The steepness



of the rising trendline tells us that the place to have been during 1986 and '87 was the strongest Dow stocks (which is exactly where I told subscribers to be). The main angle of ascent under the Dow is steep, and the second (later) angle of ascent is even steeper. The worry -- the Dow could correct down to 1950 (which would be very costly) and still be in a rising trend.

Next we see Barron's Low-Priced Stock Index. It's hard to believe, but this Index has just bettered its mid-1986 high. Normally, in speculative markets, the L-P Index heads skyward. Those who claim that "we haven't seen the real speculation yet" use the sluggishness of the L-P Stock Index as a key part of their argument. And the lagging L-P action is unusual -- but each bull market has its oddities.

I watch the NYSE Financial Index (FI) with great interest. This Index includes ALL the financially related stocks on the NYSE: stockbrokers, banks, S&Ls, small loan companies, fund managers. The FI must have "suspected" something, because it broke badly in mid-1986, moved sideways for months, then shot up in 1987. The latest reading (although near its 1987 high) is just above last year's peaks. So anyway you look at it, the FI has been a laggard in this bull market.

The D-J 20-Bond Average has been climbing steadily all through 1986 and '87. Right now, the Bond Average is sitting on its rising trendline. A break below this trendline might not be too important because the angle of rise has been so shallow. Still, bulls on bonds would obviously prefer to see the rising trendline hold.

The Dollar Index is weighted heavily for the yen and the German mark. This Index has been in a steep decline all during 1986 and '87. The word is that the dollar is now both undervalued and oversold. I hope so. But why guess? The reversal point for the dollar is clear enough on the chart. If the Dollar Index can climb to 105, that would reverse the trend to bullish. Personally, however, I doubt if we're going to see bullish action in the dollar.

London gold, after exploding in mid-1986, has dropped into a frustrating consolidation pattern. The trend for gold has obviously been up since early 1986, but at this point it's almost impossible to draw a valid bullish trendline for gold (this is always the case when the price movement goes sideways for any considerable length of time). For gold bulls, a rise to 420 would be a huge plus. For the bears, a break to 385 would justify their pessimism.

Finally, the CRB Commodites Futures Index takes on particular importance at this time. This Index is important, because it is one of our chief barometers of inflation or deflation. The CRB has been in a bearish to neutral mode ever since its 1980 peak. As of the latest reading, the CRB provides no hints of coming inflation (despite the unending explosion in the US money supply). What would be the first hint of inflation in "things" (as opposed to the money supply)? A rise in the CRB to the 215 level would do it.

NOTES & QUOTES: The Rolex watch (18 kt. gold, President model ONLY) is now so widely desired and traded that it has literally become a second currency. Glance at the classifieds (jewelry section) of almost any big-city newspaper, and you will see ads for Rolexes wanted and Rolexes for sale. Rolex just raised the price of the President model (up $600) to $9750 for the men's watch and $6950 for the women's. Prices for used Presidents run roughly $6500 for the men's and $5000 for the women's. But beware: "bargains" in the watches often have imitation Italian or Hong Kong bands rather than the genuine Swiss Rolex-made bands.

If you buy a President, buy only an all-Rolex (watch and band), and buy the self-winder, not the quartz. By the way, Rolexes are one of only two great-crafted watches (Patek Philippe is the other). Sturdy and reliable, the Rolex will usually last longer than you will. As stated, the President model Rolex can now be likened to a "second currency" with a resale market almost comparable to gold coins.

* *

Wonder drug: As subscribers know, I had a quintuple by-pass (open-heart surgery) last July. The operation was a great success. Whereas I was suffering from daily angina and shortness of breath prior to the operation, I am now jogging, playing basketball with Ryan, my nine-year-old, and in general raising hell.

The purpose of the by-pass operation was literally to by-pass my five clogged arteries. The clogged arteries were a result (or at least partly a result) of high cholesterol and high low-density lipids. My cholesterol level was an unhealthy 375, and no amount of strict dieting affected my cholesterol level (cholesterol is manufactured by the liver as well as being taken in via fatty foods).

Along came Merck Inc. with Mevacor, their new wonder drug which reduces cholesterol levels by blocking an enzyme which is vital to the liver's manufacture of cholesterol. So far, only 2,000 people in the nation have been (experimentally) on this new drug -- the drug has not yet been approved by the FDA. But last week I went on Mevacor, and the doctor (it is an

experimental program) tells me that cholesterol levels for people on Mevacor usually drop 25% to 40%. When Mevacor is used in conjunction with certain other drugs, cholesterol levels have dropped as much as 70%.

So all I can say is "Thank you Merck." I expect this amazing new drug to be a monster seller once it is made available to the public. Merck's stock, of course, has advanced a huge amount over the last year, a good deal of the advance probably on the basis of the coming demand for Mevacor (by the way, I have recommended Merck repeatedly, starting in June, '85, when the stock was 48 -- it is now 160).

* *

Here's what Ross Perot (billionaire businessman and founder of Electronic Data Systems) says about protectionism. "For my company to succeed, I've got to have something that you want to buy, right? It's got to be better than all your other choices. And I can't force you to buy my things through protectionism, trade barriers, and what have you. I'll need you to buy my products because they are better. Now, anything less than that, and I am in deep trouble."

* *

On April 1 Japan will open its doors to American lawyers (they will be able to open offices in Japan). Could this be America's secret weapon, the phenomenon which will finally sink the rising sun? It wouldn't surprise me. Give our legal eagles a few years and instead of competing with the US, Japanese companies will simply be suing each other to death. The US has 650,000 lawyers, Japan has 13,000. Could the number of lawyers in a nation be inversely proportional to its level of productivity?

* *

Russell Opinion: The latest GM plan to buy back 20% (up to $5 billion) of its stock is sheer idiocy. The only good reason for a company to buy its own stock is when it has nothing better to spend the money on or when the company has no debt and is swimming in cash during a recession. GM would do better using the money to develop competitive cars or to retire some of its debt. GM currently has a negative cash flow and is showing lackluster sales. To support its own stock in the market by buying that stock is pathetic. Let GM make the profits and GM stock will get all the support it needs! My guess is that the current GM management will ultimately be thrown out. First they buy out Ross Perot, then they buy their own shares. Ammunition (money) down the drain, I call it.

* *

Current political opinion has it that Gary Hart is the Democrats' leading contender for the presidential nomination. A few weeks ago Hart came to San Diego for a fund-raising dinner, and I was curious to see what our next president might look like. So Faye and I went. We saw Hart, I was introduced to him, I shook his hand and noted that he had a nice smile. We went through a good chicken (stuffed with spinach) dinner at the famous Hotel Del Coronado and then we listened to Mr. Hart.

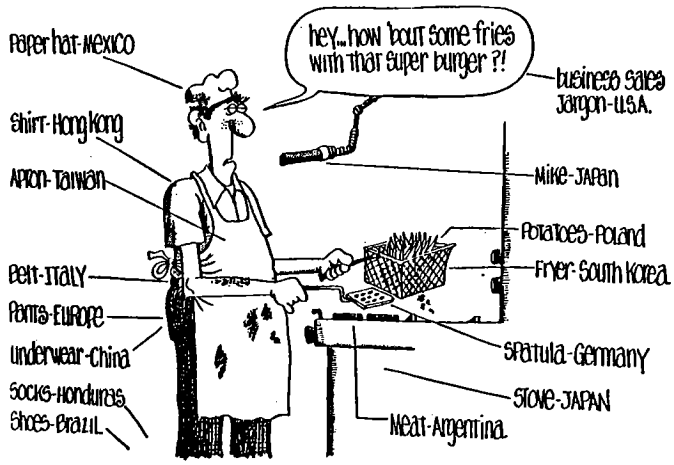
My impression: I was frankly surprised. Hart talked in platitudes (almost worse than Reagan), but what surprised me was his halting, weak, uninspired speaking manner. Hart came across like a nice guy who really is shooting for the wrong job. I dunno. Maybe Gary was tired, maybe he was frightened, maybe he'd eaten too many San Diego tacos, but I don't see him getting the nomination (much less the presidency) with that kind of performance.

* *

Political thought of the week: Can you imagine what the Republicans would be saying if a Democratic president had run up deficits even remotely resembling the deficits we have seen under Reagan? Russell opinion: Before Reagan has left office, his administration will, from an economic standpoint, be seen as a disaster.

* *

Americans may be losing out in manufacturing, but by golly, we ain't losing out in the sense of humor department. Here's one cartoonist's look at the American worker of the 1990s ---



The typical American workman of the 1990s

* *

From our "Oh Well, We Tried Dept" IBM anounced on Feb. 24 that it had developed a memory chip capable of storing 4 million bits of information (4 bytes). The next day Japan's Nippon Tel. & Tel. Co. announced that it had developed a chip with a 16-bytes memory, four times as powerful as the IBM wonder. The new Japanese chip, which is a slice of silicon the size of a dime, can store characters of information equal to 64 newspaper pages.

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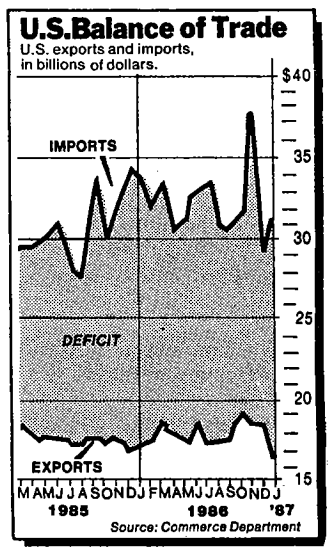


The trade balance for January was another disaster (see chart) with US exports literally collapsing. Our trade balance with Japan was up a negative 34% from December while our trade balances with S. Korea and Taiwan continued to rise negatively. Meanwhile, Korea is going full speed ahead, intent on making itself another Japan. Korea will use the coming Olympics (set for Korea in 1988) as the showpiece for its rise as a new industrial power.

Speaking of trade balance, I shopped a few local toy stores for a present for my son, Ryan. I left the stores with a feeling of rage. Almost every item in the stores had been manufactured in Japan, Taiwan, Korea, or China. And it's the same story in department stores, and I don't care whether you're buying apparel, appliances, tools, or TVs. It seems the only things the US is making today are plastic credit cards. I call it a prescription for ultimate economic chaos (and I don't care how much "service and information" we turn out).

Sam Nakagama (a leading economist) feels that the US trade balance cannot be cured in the face of the continuing explosion in the money supply. With 20% growth in M-1 during the last half of 1986 he states, "How can you correct the trade balance with 18-20% money growth? You draw in more imports because you keep printing more and more money, and the excess money is used to purchase the imports. It also seems that the buyers prefer the imports."

* *

From our "Ethnicity and Brains Files." If the US is to survive in this world, it's going to do it on brain-power. The future and the hope of America obviously resides with the brains of our kids. The Westinghouse Science Talent Search is the nation's oldest and most prestigious competition for teen-age scientists. This year's Westinghouse winners were just announced, and the names are interesting: (1) Louise Chang, (2) Elizabeth Wilmer (3) Albert June-Wei Wong, (4) Joseph Wang, (5) Daniel Bernstein. To those who dislike or fear minorities, this list is worth pondering. The top five winners were three kids of Asiatic background, one

Jew and one Caucasian. The top two winners, by the way, were both girls.

* *

So far about 50 B-1B bombers have been delivered to the Air Force. Some say that the B-1B is already an antique, but everyone says that the B-1B has technical problems. The word is that it will cost an additional $3 billion to do the necessary repair work on the B-1B. But perhaps the worst aspect of the B-1B has just been made public. Read the clip, and repeat under your breath, "This is where my taxes go, this is where my taxes go. ... "

WASHINGTON—The Air Force has discovered that the electronic countermeasures system on the new B-1B bomber, rather than thwarting radar detection, actually creates a "beacon effect" and makes it easier for the Soviets to spot the plane, congressional sources said Wednesday.

Because the costly and controversial bomber is specifically designed to penetrate to Soviet targets by avoiding radar detection, the discovery was described by one knowledgeable source as "the most dramatic yet" in the plane's troubled history.

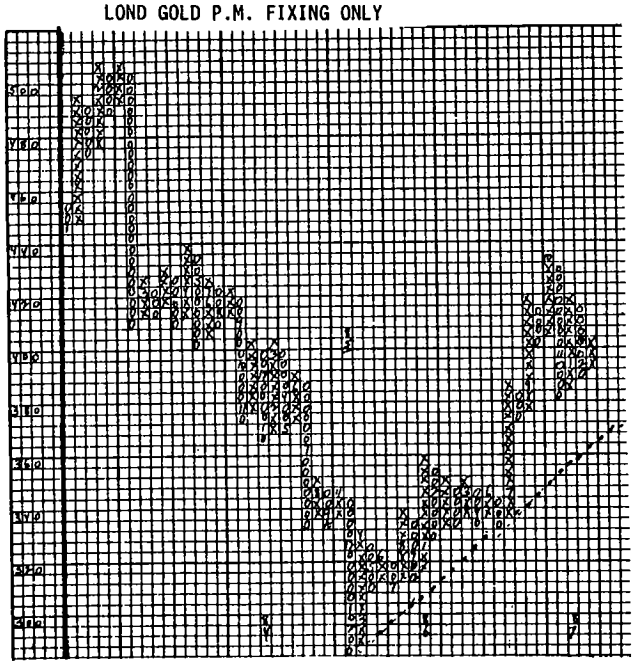
* *

From our "Where Are Your Children" file: A new study just released shows that in the state of California, one-third of ALL the men between ages 18 to 29 have been arrested at least once. One in six has been accused of a serious felony. Of those arrested, half were arrested more than once. No wonder the Golden State is running out of prisons.

PRECIOUS METALS: My friends at Monex in Newport Beach are running big ads which state, "7 Irrefutable Reasons to Buy Gold. And Buy It Now." They list the reasons: (1) The precipitous decline in the dollar; (2) The $3 trillion national debt; (3) The seemingly ever-increasing trade deficit; (4) The third world teetering on default; (5) The unsettling rise in bank failures; (6) Foreign capital flight, and (7) The growing storm in South Africa (which produces 60% of the free world's gold).

All excellent reasons, but I wouldn't give you a Krugerrand for the lot. Why do I say that? Because on the face of it, you never know whether a tradeable item, gold or a stock or a bond, has ALREADY DISCOUNTED all the news and all the reasons. In the case of gold, for instance, how do we know that gold isn't really worth only $100 an ounce and it's up here at $400 because it is discounting all the reasons listed above. The answer is -- we don't know.

LOND GOLD P.M. FIXING ONLY



From an investment standpoint, the reason I own gold is that (1) I want to own some real money, and (2) I want to diversify into something tangible that will last longer than a stock or a bond or a Treasury note.

From a market practitioner's standpoint, there's only one reason to own gold. And that reason is because gold is in a bull market. If I thought gold was in a bear market, I wouldn't touch it. It's as simple as that.

All right, why do I say that gold's in a bull market? I say it because gold hit a low of 284.25 (London fix) back in February 1985 and it's never been lower. A two-year rising trend is enough to be termed a bull market, although some die-hard gold bears insist on calling the two-year 45% rise "a bear market correction." To which I say, "Gimme a break -- even if gold topped out here I'd have to label the move from the '85 low a mini-bull market." I include this point & figure chart (courtesy Chartcraft, Box 2046, New Rochelle, NY 10801) which shows part of the great plunge to the '85 low, and the bull market since.

Reading off the current consolidation in the point & figure chart, a rise to 424 would be a bullish signal, and a rise to 440 would constitute a major breakout. On the downside, a bearish signal would occur at 388, and an important bear signal would occur at 380.

LATE NOTES: Subscribers are asking me what to do with profits they're taking out of the stock market. That's easy: put the money in a cash reserve fund or a muni cash fund. Park it for a while. Where do you find a cash fund? The newspapers and magazines are bulging with advertisements for the various cash funds.

If you have a portfolio of stocks (let's say you have $200,000 in the market) and you start taking profits, you've got to develop a policy, a strict mind-set, or you're going to end up climbing the walls. The policy that I advise is this: once you take profits in a big bull market you're OUT on whatever portion of your stock portfolio you chose to sell. Say you sold $20,000 of stock. Don't even think of going back into the market with that portion, no matter where the market goes or how far or how fast. You've cashed in on 10% of your portfolio, and that cash isn't going back into the market until the next bear market bottom! Remember, "the market will always be there" (which is more than many people can say for their assets).

I've seen more people lose their shirts though GREED than through all other emotions combined. And the greed usually occurs when the person sells out, watches the market go higher, and then ("Oh gad, I missed the big move") jumps back in just in time to catch the top.

Remember, nobody captures the whole move except the gambler. And if the gambler is lucky enough to catch the whole move once -- he'll lose his shirt over and over again trying to repeat his one spectacularly lucky performance.

Market statistics have become progressively more lopsided. My PTI is now a record 90 points above its moving average. The rise (from the '82 low) has consumed 56 months (the 1932-37 record was 57 months!). The A-D ratio has declined on only 14 out of 45 trading days in 1987, and that smacks of an awful lot of enthusiasm -- if not euphoria. At 11.8%, Chartcraft's percentage of bearish services has dropped to a nine-month low. When everyone's a bull, when the market's overvalued, when the uptrend has been in place for 56 months, it's time to be very, very careful. (Be sure to read Robert Bleiberg's warning Editorial regarding the utilities in the Mar. 9 issue of Barron's).

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